

report trades DGOC accepted the previous business day.⁵

The details of the trade will be sent to the clearing bank along with the delivery instructions. Participants must maintain a bank account in one or more correspondent banks for purposes of the payment or return of margin, delivery or acceptance of the Treasury securities, or making or receiving payment for such securities. The selected correspondent bank must be a member of the Fed Wire System. The selling participant must deliver securities to the clearing bank against payment no later than one minute prior to the close of the Federal Bank Wire System. The clearing bank will redeliver such securities to the purchasing participant against payment for such securities.

DGOC will net trades under two circumstances. If a participant has a repo and a reverse repo with the same underlying collateral and off-date, the off-date settlement positions will be netted as to par amount, price, and accrued interest. If a participant renews a maturing repo for the same underlying collateral prior to the off-date for such repo, DGOC will report to the participant the net money difference between the two repo transactions.

DGOC's existing margining methodology will be adapted to incorporate repo transaction and reverse repo transaction exposures. Margin may be deposited in the form of "Central Bank Funds,"⁶ Treasury bills, Treasury Notes, or Treasury bonds. Treasury securities will be valued at 95% of their market value. All participants will be required to maintain a minimum margin deposit of \$1 million par amount Treasury bills with a maturity of less than 180 days. The amount of margin will be derived from two calculations: Mark to market and performance margin. Mark to market will represent the net amount of the estimated cost to liquidate a participant's under-margined position offset by the estimated proceeds from liquidation of its over-margined positions. Performance margin will represent an estimate of the net shortfall from the liquidation of a participant's repo positions at the close of the next business day taking into account the most adverse market movement in the price of the underlying

Treasury securities which could reasonably be anticipated.

Price files, which will be updated several times intraday, as well as daily mark to market prices on repos will reference data on the underlying collateral as well as the participant's existing positions which are then used to calculate margin requirements. The margining system will be run and margin reports will be prepared and distributed to participants for margin collection. This process also will be the beginning point for the accounting system which will track all system activity. Margin will be set for each participant and will reflect the netting of payments and any potential exposures to the participant. Margin requirements will go into effect at the time the trade is accepted for clearance. Prior to 8:00 a.m. of each business day, each participant will be issued a daily margin report which will indicate the margin surplus or deficit. At or before settlement time on each business day, each participant will be obligated to deposit sufficient margin to satisfy the margin deficit shown on the daily report.

In the event of a failure to deliver securities on either the on-leg or off-leg, DGOC will still margin the transaction. DGOC also may elect to collect intraday margin if DGOC deems such collection necessary or advisable to reflect a market price change, the size of the participant's positions, the financial or operational condition of the participant, or otherwise to protect DGOC.

DGOC believes the proposed rule change is consistent with Section 17A of the Act and the rules and regulations thereunder applicable to DGOC and in particular with Section 17A(b) (3) (F) of the Act.⁷ That section requires that a clearing agency's rules be designed, among other things, to promote the prompt and accurate clearance and settlement of securities transactions and to remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions. DGOC believes the proposed rule change will permit wider utilization of its system by providing participants with the ability to clear and settle repos and reverse repos.

(B) Self-Regulatory Organization's Statement on Burden on Competition

DGOC does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purpose of the Act.

(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants or Others

Comments have neither been solicited nor received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within thirty-five days of the date of publication of this notice in the **Federal Register** or within such longer period (i) as the Commission may designate up to ninety days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) By order approve such proposed rule change or

(B) Institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room. Copies of such filing will also be available for inspection and copying at the principal office of DGOC. All submissions should refer to the File Number SR-DGOC-94-06 and should be submitted by April 11, 1995.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁸

Jonathan G. Katz,
Secretary.

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⁵ If the on-leg is scheduled to settle that day, participants will not receive confirmation that DGOC has accepted the trade until the day after the trade has settled.

⁶ Central Bank funds is defined as cash balances available for immediate withdrawal in accounts maintained at banks that are members of the Federal Reserve System or any other wire system operated in a similar characteristics or attributes.

⁷ 15 U.S.C. 78q-1(b)(3)(F) (1988).

⁸ 17 CFR 200.30-3(a)(12) (1994).